

## Chapter 2

Why Do Smaller Businesses Underperform Larger Ones?

### *Qualitative Reasons Why Smaller Businesses Underperform*

Each month, Performance Business Design offers free workshops for the business community in Massachusetts. Each of the 12 workshops is designed to improve an area of the attendee's business. In a hands-on group setting, we use a real-life Example Company, acting as employees of that company, with the goal to improve the area we are discussing. Before we begin this process, though, I present an introductory set of slides, explaining why smaller businesses fail for qualitative reasons. This is always the most difficult part of the workshop for me to deliver, because it involves things business owners don't want to hear. Fortunately, each of the qualitative reasons I mention are rectifiable. At the end of the workshop I deliver their solutions. This chapter will present the qualitative reasons so many smaller businesses underperform and ultimately fail, and close with solutions to each of them.

Early in starting Performance Business Design, I observed that working with clients we put together beautiful plans for improvement, turn-key and ready for implementation. Moreover, since Performance Business Design is a collaborator, not consultant, each step of the planning process got two thumbs up approval with the CEO or managers I was collaborating with. Yet, when I checked in months later, I found that most of the time, few-to-none of the ideas were being implemented as planned. You can probably think of answers right away, many of which involve me as outsider, but let me continue first.

Meantime, when I or other analysts visit with, critique and report on a publicly held company, follow-up visits almost always involve these words: "You recommended that we do this. I discussed it with my Board of Directors (or managers), we agreed, and so you'll see that we are doing things differently this time around." I paraphrased, but "things" has been anything from operational changes, to marketing changes, to staffing, to compensation, to acquiring or divesting assets (usually the latter) to even replacing managers. But they get done.

Why, then, does a company worth up to \$100 million (my specialty in the public arena) follow advice yet a fledgling smaller business usually follows none of the advice. Advice that we collaborated on and agreed to? Makes no sense. Years

later the answer gelled in my mind. I understood the reasons, and I'm here to present them to you.

### No Accountability

- CEOs are accountable to the Board of Directors.

If they underperform, they are replaced. Business owners have tenure, regardless of performance.

- CEOs hire talent to meet performance needs.

Smaller business owners feel self-sufficient.

- CEOs have short timeframes.

Boards replace underperforming CEOs in as short as a year. *Smaller business owners have long or undefined timeframes.*

### Stronger Defenses

- CEOs have others competing for their position.

Business owners can't be replaced.

- Publicly held companies are always for sale.

Underperformers get taken over. Smaller businesses instead go out of business. Only 30% last 10 years.

- **A** Tendency to Justify the Status Quo

CEOs seek continuous improvement in order to continue achieving results. Smaller businesses justify the status quo since change is uncomfortable.

- CEOs set high benchmarks and are often unhappy with the status quo.

Smaller business owners are usually content since they equate their business with their sense of self.

## *Quantitative Reasons: The 12 Area Performance Check*

Earlier I mentioned that I have found there are 12 areas important to business success. In business school at Kenan Flagler<sup>7</sup>, at the University of North Carolina, we learned that every business has 4 to 8 critical success factors. Which factors were most critical varied by industry. And that, no matter how complicated a business was, you needed to do well in the critical success factors above and beyond all else.

I don't use the critical success factor model, but instead use a similar 12 Area Performance Check, a model I developed after observing that smaller businesses need to do well in each of these 12 fundamental areas. Unlike the critical success factors, doing badly in one didn't mean the business would fail. But, scoring well in as many of the 12 areas as possible would make the business perform better and its profits increase.

When we discuss the 12 areas, I think you'll agree they all make sense. There is no secret recipe here. No groundbreaking principles, no cutting-edge theories. The areas, as we will see, are all fundamentals. Moreover, a common pitfall I observe in smaller businesses is assuming that business success involves more complicated factors, such as global trade, distribution agreements, sophisticated marketing arrangements, etc. For large corporations such factors are critical, indeed. But for smaller businesses getting the basics to 100% is more important. And few are operating at that level.

If the areas are that basic, you ask, why do we need a book? The answer, unfortunately, is because smaller businesses aren't doing *most* of them well. As discussed earlier, in our evaluation of about 50 businesses a year, we find typical scores lying 30%-60% and rarely scoring above 70%. All the while, as mentioned earlier, successful corporations perform at 70%-90% most of the time, *even using a harder measurement gauge*. The areas we use for corporations are harder and more conceptual. I do this because almost all of them do well in the fundamentals, so I need to replace some of the basic areas with more conceptual ones, or they would all be scoring about 100%! We won't be discussing performing for major corporations here, so let us move on.

---

<sup>7</sup> In 1981 it was referred to as Chapel Hill

The 12 areas, which form the core of this book, are ordered as the approximate evolution of a business. Start-ups and Mom & Pops tend – repeat tend – to do well by improving the early areas, while evolved organizations tend to do well by improving later stages. Before we get into the 12 areas, let's discuss the analysis I use to report on a business' performance.

## The Business Performance Report

This chapter is purposefully short because it's the content of this report, rather than the report itself, which matters to your business. Nonetheless, it is helpful to see the Business Performance Report, which evaluates the 12 areas of a business and results in a total score. It is presented to the client initially, usually before they become a client, free, upon request, and quarterly once our work is completed. We present it initially in order to show where there is room for improvement. And we present it quarterly, or so, thereafter in order to see how the business is performing better.

In the Business Performance Report, which we abbreviate "BPR", we get into the specifics of real-life businesses. Before I explain what goes into it, let me mention our policy for disclosing the names of real-life businesses.

We don't disclose the names of clients. Those who collaborate with us enjoy a competitive advantage. We help to preserve that competitive advantage by not disclosing names. Moreover, because we usually sign non-disclosure agreements, we err on the side of conservatism by not discussing clients at all. This prevents accidentally breaching such agreements by disclosing confidential information. Instead, when we give real-life examples, we use companies which we have no relation to, and thus are using only available public information.

The last thing I'll say about discussing real life businesses is this: any time we discuss a real business we do it with constructive suggestions in mind. It's appalling, you'll agree, the amount of nasty press companies receive nowadays on social media. Well, that's not us. We never opine on the quality of its products and services, which we always assume are first-class. Instead, we comment on how the business is managed, marketed, or anything else visible from the perspective of its customers. For reviews on the products themselves we refer anyone to anonymous review sites, in particular Yelp.com or Angieslist.com, neither of which we contribute to (though we do use as a source of information).

Below is shown a Business Performance Report for a successful business, BT's Smokehouse. BT's is not a client of ours. BT's is a fine restaurant, located in Central Massachusetts. It is a perfect example of what I said at the beginning of this book; namely, that businesses which score well always are seen by the general public as being popular, successful, and fun to frequent.



## BUSINESS PERFORMANCE REPORT FOR BT'S SM

Performance Item	Score	Researcher notes
<b>Do you have a downloadable brochure? How appealing is it?</b>	90%	Your downloadable brochure is superb. Few have them.
<b>How well defined are your products and services? Are they too broad? Too narrow?</b>	90%	Focus is fine. You have everything related to a southern style Bar-B-Q. In addition, catering and a food truck works as well.
<b>Do you have a blog? Is it updated regularly? Is it informative and somewhat personal?</b>	30%	While not strictly necessary for a restaurant, a blog would be a competitive advantage, and add a personal element. It should be on the website.
<b>Do you have a set of well-written Mission Statements, Corporate Mantras and Profile Statement appropriate to your industry?</b>	50%	The Mission Statement is good, albeit more lengthy than one should be. I'd like to see a Corporate Mantra, and a Social Values Statement, while not commonly seen for restaurants, would be appealing as well.
<b>How is your Google ranking, both locally and within your county?</b>	70%	In a search for "Southbridge MA barbecue" you are on page 1, excellent. A broader search for Worcester finds you on page 1 as well. Nice work!
<b>If appropriate, do you have an email or newsletter signup?</b>	80%	Good work. An email sign-up would be nice, but you've got such a great social media sign-up that it more than makes up for it. The email signup would be the final touch.
<b>How attractive is your website? How complete is it (calendar of events, news, product announcements)?</b>	70%	The website is fine, lacking only a blog. I think there's a bit too much on page 1, though, and would opt to have your bottom information towards the top.
<b>How frequently do you add content to your website?</b>	60%	The very first event is two years old! And the other events aren't dated, leading one to believe that they are 2014 as well. Time to keep things up to date.
<b>How persuasive are your scripts?</b>	90%	Your scripts are fine. You know how to write. There's a blend of detail and emotional appeal.
<b>When was your last product announcement?</b>	70%	It would be nice to see specials mentioned on the website. I realize that Southern Style Bar-B-Q isn't tailored to specials, but it would be one more source of activity for the site.
<b>How strong is your presence on LinkedIn, Pinterest, Foursquare or other social media besides Facebook?</b>	90%	Your Foursquare profile and reviews look great. Nice work.
<b>How active are you on Facebook?</b>	90%	You are the role model for Social Media advertising on Facebook.

9/15/2017

Page 1 of 2

<b>How strong is your Brand Image?</b>	90% Your Brand Image is spot on, that of a southern-style Bar-B-Q.
<b>How substantial is your Corporate Presence? Do you appear the whale, or the tiny minnow in your industry?</b>	90% Your corporate presence is larger than your ACTUAL presence, suggesting that it's time for expansion.
<b>Are you on Google Places? Where do you place?</b>	90% You are right up there, not only for Sturbridge, but also for Worcester MA! I rarely see county-wide presence like this among businesses this size.
<b>What do your negative (and credible) Yelp reviews suggest for improvement?</b>	90% 4 1/2 stars and 429 ratings! How rare is this?! Again suggesting expansion. From personal experience and reading the bad reviews, you need either a
<b>What do your Angie's List <u>reviews</u> suggest?</b>	90% Angie's doesn't apply here.
<b>What are your Yelp and Angie's List <u>ratings</u>? Are there many of them?</b>	90% Angie's doesn't apply here.
<b>Is your email address a dedicated domain?</b>	90% Your email address is its own domain.
<b>How do you compare to your competitors?</b>	90% The competition isn't very good. Bucky's has poor reviews and I've eaten there and agree.
<b>How prepared is your business for expansion? Do you have most of your ducks in a row?</b>	90% BT's is ready for expansion, mostly into a second and/or larger restaurant. Also, into subsidiary product lines.
<b>How unique are you in your industry?</b>	60% It's true you are one of the only BBQ restaurants around. But that could change. While excellent products and prices is a good thing, even better is to be unique in something, or in its delivery. The result is higher profits from less competition.

**BUSINESS PERFORMANCE SCORE: 78%** This is an **OUTSTANDING** rating for a business. It shows **build business presence. This level is a good stepping business transitions into a larger one, towards your gr towards a strategic vision, such as product expansion,**

Before you strain your eyes and ask how you are supposed to read such small print, I'll tell you that the remainder of this book discusses everything within that fine print as well as information which isn't shown in the final report: what we use to evaluate results. For example "How do you compare to your competitors?" doesn't explain what we look for in making that evaluation. We'll come to that later in the ensuing chapters.